



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

April 11, 2002

H.R. 3930 **Water Quality Financing Act of 2002**

*As ordered reported by the House Committee on Transportation and Infrastructure
on March 20, 2002*

SUMMARY

CBO estimates that implementing this legislation would cost \$9.2 billion over the next five years, assuming the appropriation of the necessary amounts, for the Environmental Protection Agency (EPA) to provide various types of grants to states and nonprofit organizations to support water quality projects and programs. The Joint Committee on Taxation (JCT) estimates that enacting H.R. 3930 would reduce revenues by \$252 million over the 2003-2007 period, and by \$1.8 billion over the next 10 years. Because enactment of the bill would affect receipts, pay-as-you-go procedures would apply.

H.R. 3930 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA). The bill would benefit state, local, and tribal governments by reauthorizing and expanding grants under the clean water state revolving fund (SRF) program. Any costs incurred to receive or administer grants under this program would be voluntary.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 3930 is shown in the following table. The costs of this legislation fall within budget function 300 (natural resources and environment).

	By Fiscal Year, in Millions of Dollars					
	2002	2003	2004	2005	2006	2007
CHANGES IN REVENUES						
Changes to Tax Exempt Financing Estimated Revenues ^a	0	-7	-18	-37	-70	-120
SPENDING SUBJECT TO APPROPRIATION						
Spending Under Current Law						
Budget Authority ^b	1,563	0	0	0	0	0
Estimated Outlays	1,473	1,313	1,053	618	203	0
Proposed Changes						
Clean Water SRF Grants						
Authorization Level	0	2,000	3,000	4,000	5,000	6,000
Estimated Outlays	0	100	450	1,250	2,350	3,450
Technical Assistance and Research Grants						
Authorization Level	0	75	75	75	75	75
Estimated Outlays	0	38	60	71	75	75
State Management Assistance Grants						
Authorization Level	0	250	250	250	250	250
Estimated Outlays	0	238	250	250	250	250
Total Proposed Changes						
Authorization Level	0	2,325	3,325	4,325	5,325	6,325
Estimated Outlays	0	376	760	1,571	2,675	3,775
Spending Under H.R. 3930						
Authorization Level	1,563	2,325	3,325	4,325	5,325	6,325
Estimated Outlays	1,473	1,689	1,813	2,189	2,878	3,775

a. Estimate provided by JCT.

b. The 2002 level is the amount appropriated for that year to EPA to support its grant programs related to waste water.

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 3930 will be enacted before the start of fiscal year 2003, that the full amounts authorized will be appropriated, and that outlays will follow the historical pattern of similar EPA programs. Components of the estimated costs are described below.

Revenues

H.R. 3930 would result in an increase in state tax-exempt financing, and amend current laws governing the use of such financing. The JCT estimates that consequent reductions in revenue would total \$252 million over the 2003-2007 period, and \$1.8 billion over the next 10 years. This increase in tax-exempt financing stems from three provisions within title III of this bill.

First, this bill would increase the funds available under the clean water SRF, which could result in some states leveraging their funds by issuing additional tax-exempt bonds. Second, states are limited in the number of tax-exempt bonds they can issue for certain categories of activities. Bonds for water and sewage facilities are subject to such limitations (known as state volume cap restrictions). Enacting H.R. 3930 would remove this limitation on bonds for water and sewage facilities, resulting in the issuance of additional tax-exempt bonds. Finally, under current law investment of tax-exempt bond proceeds before their expenditure is limited by arbitrage restrictions. These arbitrage profit controls tend to restrict the amount of tax exempt bonds issued. Generally, arbitrage profits earned on investments unrelated to the government purpose of borrowing must be rebated to the government. H.R. 3930 would remove all arbitrage rebate restrictions from tax-exempt bonds issued by states for their clean water and drinking water SRFs, and lead to an increase in the volume of bonds issued.

Spending Subject to Appropriation

H.R. 3930 would authorize the appropriation of \$20 billion over the 2003-2007 period for EPA to provide capitalization grants for the clean water (SRF) program. States would use such grants along with their own funds to make low-interest loans to communities and grants to Indian tribes to construct wastewater treatment facilities and to fund other related projects. This bill would make several revisions to this grant program, including extending loan repayment terms and expanding the types of projects eligible for assistance.

This legislation also would authorize the appropriation of up to \$375 million over the next five years for EPA to make grants to nonprofit organizations to provide technical assistance, such as training, to rural and small communities, and to support research on the technologies and practices used to treat wastewater. In addition, H.R. 3930 would authorize the appropriation of \$1.25 billion over the 2003-2007 period for EPA to make grants to states to support various activities associated with implementing state clean water programs; this would include paying the salaries of personnel working on water quality issues and establishing regulations and enforcing clean water laws.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in governmental receipts that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects through 2006 are counted.

	By Fiscal Year, in Millions of Dollars										
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Changes in outlays						Not applicable					
Changes in receipts	0	-7	-18	-37	-70	-120	-183	-254	-318	-363	-389

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 3930 contains no intergovernmental or private-sector mandates as defined in UMRA. The bill would benefit state, local, and tribal governments by reauthorizing and expanding grants under the clean water SRF program. Any costs incurred to receive or administer grants under this program would be voluntary.

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